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U.S. Still Faces Less Supply, More Demand for Natural Gas

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Reports that weather-adjusted US demand for natural gas declined by 5-10 bcfd as prices recently climbed above $3.50/Mcf "don't pass the smell test," said a Houston-based financial analyst with a reputation for being bullish on that market.

J. Marshall Adkins, with Raymond James & Associates Inc. of St. Petersburg, Fla., claims such reports are based on 11 questionable data" about US gas storage and incorrect methodology of analysis.

"Many analysts are incorrectly using annual linear regression models to correlate shoulder month degree days with injections," he said. "Most are assuming that the weekly storage numbers [for the period in April when responsibility for reporting storage was transferred from the American Gas Association to the US Energy Information Administration] are correct."

At the time, several industry sources praised the smoothness of that transition. However, Adkins said, "We believe there was substantial confusion and even bad data generated by the process," including "2 weeks where the implied, weatheradjusted, year-over-year differential in natural gas supply and demand fell close to zero.

He said, "If we were to rely solely upon the two [near zero] points in late April, then one might in fact conclude that there had been meaningful demand deterioration." However, he noted, "The past 2 weeks have seen a return to the more believable [level] of 5 bcfd less natural gas in the system that was evident for the first 3 months of the year.

"In other words, we believe that the historical data support our thesis that there is at least 2 bcfd less natural gas supply in the system and 3 bcfd more natural gas demand than last year."

About 10 bcfd of US gas demand was lost during a 6-week period in January and February 2001 as gas prices soared toward $10/Mcf. But today's prices are "nowhere near" that level, Adkins said.

Moreover, he said, "The economy is on the upswing today, rather than the downswing as seen in early 2001. Many of the industrial consumers that were forced to shut down in 2001 are now scrambling to restock depleted product inventory levels." More importantly, he said, "The rise in oil prices has eliminated the incentive for fuel switching."

Adkins predicts that injections of gas into US storage will be reduced to a weekly average of 65-75 bcf over the next 6 weeks. "Then it should be more than evident to everyone that there has, in fact, been no demand deterioration and that US natural gas supply- demand is much tighter than it was during this time last year," he said."

BAKER HUGHES INTERNATIONAL BIG COUNT: TOTAL WORLD / TOTAL ONSHORE / TOTAL OFFSHORE
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